

# City of Albuquerque

# **Interoffice Memorandum**

June 6, 2003

Ref. No.: 03-103B 3<sup>rd</sup> Otr.

To: Vincent E. Griego, Council President

From: Debra Yoshimura, Internal Audit Officer, Office of Internal Audit

Subject: FINAL REPORT TO THE COUNCIL ON THE CITYWIDE

FISCAL YEAR 2003 THIRD QUARTER BUDGET 03-103B 3<sup>rd</sup> Qtr.

In accordance with City Ordinance 2-10-9 (B) ROA 1994, the following report is hereby submitted to the City Council. The Ordinance required the Office of Internal Audit to complete a review of the FY2003 3<sup>rd</sup> quarter budget.

The attached report summarizes appropriations and projected expenditures at the program level for all of the City's operating funds. The Chief Administrative Officer's response has been included for the programs that are projected to materially overspend.

Enclosures

DDY/njt

## REPORT TO

## CITY COUNCIL

# ON THE

CITYWIDE FISCAL YEAR 2003 THIRD QUARTER BUDGET



City of Albuquerque Office of Internal Audit

## **INTRODUCTION**

City Ordinance 2-10-9 (B) ROA 1994 requires the Office of Internal Audit to perform a quarterly review of City expenditures and encumbrances for each fiscal year. This report is presented to the City Council to satisfy the Third Quarter of Fiscal Year 2003 requirement.

Attached, please find the projections for the third quarter of fiscal year 2003. These projections were compiled by the Office of Management and Budget (OMB). For each anticipated over-expenditure in excess of \$100,000 or 5% of appropriations, we requested an explanation as to what is generating the projected over-expenditures. We then assessed managements' plan, if any, to resolve the anticipated over-expenditures.

## RESOURCES AND FUND BALANCE

The following is an analysis of changes in General Fund revenues, appropriations and fund balance.

D	FY03 APPROVED BUDGET (000's)		FY03 3 <sup>rd</sup> QUARTER PROJECTIONS (000's)	
Resources: Recurring revenues	\$	336,672	\$	325,854
Non-recurring revenues	φ	2,560	Φ	2,560
Beginning fund balance		18,024		36,599
Total resources		357,256		365,013
Appropriations and adjustments:				
Changes in fund balance reserves		(500)		(678)
Appropriations/Projected expenditures		(336,488)		(331,293)
Ending fund balance		20,268		33,042
Reserve requirement		20,203		27,758
Variance	\$	65	\$	5,284

OMB currently estimates general fund revenue of \$328.4 million, or \$10.8 million below the approved budget estimate. This estimate is about \$700 thousand below the second quarter estimate, with weaknesses occurring in internal service revenues, intergovernmental revenues and charges for services. These were offset to some degree by strength in building permit revenues. The Office of Internal Audit reviewed OMB's FY03 third quarter revenue report, all estimates appear reasonable.

## **EXPENDITURES**

The following are explanations provided by the responsible departments for programs anticipated to overspend \$100,000 or 5% of appropriations, whichever is lower.

#### GENERAL FUND PROGRAMS

The General Fund is used to account for resources and expenditures traditionally associated with governments which are not required to be accounted for in another fund. Appropriations are at the program level, the level at which expenditures may not legally exceed appropriations. There are currently 95 programs within the General Fund. The following programs are in jeopardy of exceeding budget appropriations:

<u>Program 77421</u> – City Support Services Early Retirement program is projected to overspend its appropriated budget of \$4,000,000 by \$815,000. The following are projections for the Early Retirement program:

Expenditures through 3/31/03	\$ 3,842,715
Wages for employees through 6/30/03	383,794
Vacation/Sick payout for 6/30/03 retirees	275,289
Projected additional retirees	 313,135
Total	4,814,933
Approved Budget	 4,000,000
Variance	\$ (814,933)

<u>Program 77124</u> – City Support Services Transfer to Operating Grants Fund is projected to overspend its appropriated budget of \$3,754,000 by \$99,000. The City indirect and cash matching funds were originally over/(under) budgeted by \$218,750 as follows:

Cultural Services Department	\$ 1,213
Family & Community Services Department	(87,002)
Planning Department	(1,821)
Police	3,232
Senior Affairs Department	(109,282)
Transit Department	 (25,090)
Total	\$ (218,750)

The Administration reports that they are considering a number of options to ensure budget compliance. These include requiring the departments that overspend to make the difference up with savings in other programs. In addition, Parks and Recreation, Solid Waste, Cultural Services and the Planning Departments have identified \$27,821 in General Fund savings to cover their over-expenditures. Legislation is pending before City Council to transfer these funds. Based on the information provided by the Administration it appears that the Transfer to Operating Grants Fund program may overspend by \$72,000.

<u>Program 51503</u> – The Administration believes that APD will spend \$393,000 below the department's appropriated budget of \$86,334,000. However, APD Central Support Services program is projected to overspend its appropriated budget of

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\$20,096,000 by \$889,000. APD management reports that this over-expenditure is primarily due to an aging vehicle fleet that requires increased vehicle maintenance. Based on an analysis of expenditure accounts within the program, vehicle maintenance expenditures account for half of the projected over-expenditure. There are additional projected expenditure increases in non-vehicle maintenance accounts such as supplies. For the increases in supplies accounts, we noted numerous discretionary expenditures for items such as cakes and furniture. APD management reports that the cakes were purchased for award and retirement ceremonies for APD Officers. Administrative Instruction No. 3-11 dated February 27, 1995 states, "The City will not pay for meals or other supplies for award ceremonies or for retirement dinners or parties." These items do not appear to be essential to the operation of APD and should not be purchased when the program is at risk of overspending appropriations. The Administration should ensure that APD makes a greater effort to operate within its appropriated program budgets in FY2004.

<u>Program 58512</u> – Public Works Department Street Services program may overspend its budget of \$12,632,000 by \$140,000. In April, 2003 Public Works management transferred certain expenditures from the General Fund to CIP which reduced total expenditures within appropriated amounts. The Office of Internal Audit is reviewing these transfers to ensure that they are properly supported.

Total General Fund appropriations are \$329,688,000. Projected expenditures are \$331,293,000. Expenditures are expected to exceed appropriations at the fund level by \$1,605,000.

#### NON-GENERAL FUND PROGRAMS

There are 23 Non-General Operating Funds with 93 appropriated programs. The non-general fund programs at risk of overspending are as follows:

Programs 21503 and 21508 - Fund 260 - Corrections and Detention Department Corrections program and the Community Custody program are projected to overspend their appropriated budgets of \$29,236,000 and \$733,000 by \$5,789,000 and \$110,000, respectively. The City and the County have each reserved \$1,000,000. The Corrections fund is funded primarily through City and County General Fund transfers. The Corrections program could overspend its appropriated budget by \$6,000,000 by year-end requiring an additional \$2,000,000 appropriation from the City and a similar amount from the County. The \$1,000,000 reserved by the City in FY2003 was appropriated to the Corrections Fund in FY2004

<u>Program 26507 - Fund 290 - Department of Finance and Administrative Services</u> (DFAS) City/County Building operations is projected to overspend its appropriated budget of \$2,512,000 by \$232,000. DFAS management reports that during the FY2003 budget process they were in the process of working with Bernalillo County to outsource building maintenance and janitorial services contracts. Both the City

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and the County believed outsourcing these services would lead to substantial savings. As a result, the program's appropriation was cut by \$328,000. However, an examination of the proposals revealed that these cost savings would not materialize. As a result, this program is at risk of exceeding its appropriated budget. DFAS management reports that there is adequate fund balance available in the City/County Building Operations fund to cover this anticipated over-expenditure. Section 9 of the FY2004 appropriation bill appropriates \$257,000 to cover these FY2003 over-expenditures.

<u>Programs 59517, 59562 – Fund 621</u> - Public Works San Juan/Chama and Water Distribution Facility programs are projected to overspend their appropriated budgets of \$2,033,000, and \$6,640,000 by \$269,000, and \$102,000 respectively. The San Juan/Chama program is projected to overspend as a result of operations and maintenance costs increasing over what was originally expected from previous estimations provided by the Bureau of Reclamation. Public Works Department management reported that when the FY03 budget process was taking place, these programs were new. As a result, a full year's history of expenses for these programs was not available and the department relied on estimates. The Administration and the Department report that a cleanup resolution will not be made to clean up these three programs. There is adequate savings within the Joint Water/Sewer Operating fund to cover these anticipated over-expenditures.

<u>Program 33541 - Fund 705</u> – The Department of Finance and Administrative Services Department Risk Management Fund Workers Compensation program is projected to overspend its appropriated budget of \$4,319,000 by \$434,000. DFAS management reports this is due to projected costs for workers compensation claims, both for medical and indemnity being in excess of the estimated costs at the time of adoption of the FY03 budget. This is an estimate and could increase. The Risk Management Fund at June 30, 2002 had a deficit fund balance of \$14,152,061. As a result, the Risk Management Fund does not have an adequate balance to fund this overexpenditure. An additional appropriation will likely be needed in this fund.

#### CONCLUSION

Although a few programs are in jeopardy of exceeding appropriations, most projected over-expenditures appear to be manageable and will not have a negative impact requiring additional appropriations. Based on the information provided by the departments it appears that seven programs will likely require additional appropriations. These programs are:

		Projected
<u>Department</u>	<u>Ov</u>	er Expenditure
City Support Early Retirement program	\$	815,000
City Support Transfer To Oper. Grants		72,000
APD Central Support Services program		889,000
Public Works Street Services program		140,000
Corrections Department Corrections program		4,000,000
Corrections Department Community Custody		110,000
DFAS Risk Mgt. Workers Comp program		434,000
TOTAL	\$	6,460,000

#### **EXECUTIVE RESPONSE FROM THE CAO**

"I am pleased the administrative staff continues to work cooperatively with Internal Audit to assure that the City pays proper attention to spending levels.

"This has been a difficult year. Revenues are now projected at \$10.7 million below the level assumed in the FY/03 approved budget. Appropriation adjustments were required and unexpected delays in opening the MDC along with a higher than expected inmate population has resulted in projected expenditure levels above the current Corrections appropriation. Additionally, it is now clear that early retirement was significantly under budgeted.

"Fortunately, this third quarter report identifies some positive trends:

- The projected year-end General Fund balance is comfortably sufficient to cover our newly required 8.3% reserve.
- The level of FY/03 General Fund overspending projected in the second quarter at \$3.5 million is now reduced to \$1.6 million This reduction is the direct result of a hiring and purchasing freeze the CAO ordered in February of 2003, as well as the early (May) cutoff for supplies purchases for FY/03.
- Of the 19 General Fund departments, only Corrections is projected to be overspent. (City Support is not included as it is a pseudo department, which contains no director or employees.)
- Of the 94 General Fund programs, only four are projected to exceed the 5% or \$100,000 level of concern (4%).
- Of the 91 programs in funds other than the General Fund, only three are projected to exceed the 5% or \$100,000 level of concern (3%).
- We did not intervene at mid-year to "bail out" programs and departments that were projected to overspend with a mid-year adjustment bill. Some

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appropriations were adjusted early in FY/03 in order to reduce appropriations to match the reduced revenue level.

• Departments are no longer encouraged to move expenditures to ensure budget compliance. This is important because it improves the quality of the spending data and reduces the ability of the departments to hide overspending.

"I am pleased that we have been able to deal with under-performing revenues through active financial management. However, our progress must continue. In FY/02 and FY/03 we held department directors responsible for departmental spending. In FY/04 we will be raising the standard by holding managers and directors responsible for keeping program expenditures within budgeted levels."